

## Message Text

UNCLASSIFIED

PAGE 01 PARIS 19343 01 OF 02 021038Z  
ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07  
EA-09 FRB-01 INR-07 IO-14 NEA-10 NSAE-00 USIA-15  
OPIC-06 SP-02 TRSE-00 LAB-04 EPG-02 SIL-01  
AGRE-00 OMB-01 STR-04 FMC-02 DOTE-00 /104 W  
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R 011934Z JUL 77  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 5095  
INFO ALL OECD CAPITALS

UNCLAS SECTION 1 OF 2 PARIS 19343

USOECD USEEC

BRUSSELS FOR CH. BARON: DEPT PASS MARAD, FMC

E.O. 11652: N/A

TAGS: ETRN, OECD

SUBJECT: WORKING PARTY NO.6 ON SHIPBUILDING MEETING,

JUNE 27-28.

1. SUMMARY - EUROPEAN MEMBERS DETAILED THEIR SHORT-TERM AID MEASURES TO WEATHER THE SHIPBUILDING CRISIS WHICH THE JAPANESE APPEARED TO ACCEPT, PROVIDED THERE IS SIMULTANEOUS RESTRUCTURING. SUFFICIENT DATA WAS NOT IN HAND TO EVALUATE THE REPORT OF JAPANESE MANDATORY PRICE CUTTING, FORESTALLING DEBATE ON MARKET SHARES. THE WP WILL STUDY THE PROBLEM OF THIRD COUNTRY MARKETS AND SHIPBUILDING COMPETITION FROM DEVELOPING COUNTRIES. EXPORT CREDIT TERMS ON SHIP SALES TO DEVELOPING COUNTRIES WILL ALSO BE REVIEWED. END SUMMARY.

UNCLASSIFIED

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PAGE 02 PARIS 19343 01 OF 02 021038Z

2. THE JAPANESE DELEGATION REQUESTED THE LEADING AGENDA ITEM BE A DISCUSSION OF RECENT MEASURES TAKEN BY MEMBER GOVERNMENTS TO INCREASE AID TO THEIR AILING SHIPBUILDING INDUSTRIES; REMINDED THE WORKING PARTY OF THE OBLIGATION OF MEMBERS TO PROMPTLY REPORT SUCH MEASURES, AND TO SUBMIT RELEVANT DETAILS FOR WP DISCUSSION. NORWAY AND SWEDEN AMPLIFIED PREVIOUS REPORTS ON AID MEASURES WHILE

THE UK AND HOLLAND SUBMITTED APPERS DESCRIBING THEIR PROGRAMS TO HELP SHIPYARDS WEATHER PRESENT CRISIS, AND TO RESTRUCTURE FOR REDUCED FUTURE DEMAND. FINLAND AND ITALY NOTED THAT NEW AID MEASURES WERE BEING STUDIED BY THEIR GOVERNMENTS BUT NO DECISIONS HAD YET BEEN REACHED. THE JAPANESE REQUESTED AND RECEIVED DETAILED ORAL EXPLANATIONS FROM SEVERAL DELEGATIONS CONCERNING THE OPERATION, LIMITATIONS AND IMPACT OF NEW OR PROPOSED AID MEASURES. WHILE THE JAPANESE CLAIMED TO UNDERSTAND THE PREDICAMENT OF WESTERN EUROPEANS, THEY NOTED THEIR REGRET ABOUT INSTITUTION OF INCREASED GOVERNMENT AID, SAYING 'SUCH ASSISTANCE WAS IN CONFLICT WITH THE SPIRIT OF AGREEMENTS AND ARRANGEMENTS REACHED BY THE WORKING PARTY. THESE AID MEASURES, ACCORDING TO THE JAPANESE, SHOULD BE OF LIMITED TEMPORARY NATURE AND NOT LEAD TO FURTHER OVERCAPACITY. THE JAPANESE CLAIMED TO BE PARTICULARLY DISTURBED ABOUT BUILDING FOR STOCK, WHICH THEY SAID MERELY POSTPONES THE OVERCAPACITY PROBLEM, AND DIRECT SUBSIDIES PAID TO SHIPOWNERS FOR BUILDING IN THEIR HOME COUNTRY.

3. THE DISCUSSION OF CURRENT MARKET TRENDS WAS LIMITED BECAUSE THERE HAS BEEN TOO LITTLE TIME FOR HARD STATISTICAL EVIDENCE TO ACCRUE REFLECTING THE IMPACT, IF ANY, OF MANDATORY JAPANESE PRICE INCREASES. THE JAPANESE PROVIDED STATISTICS FOR RECENT NEW ORDERS,  
UNCLASSIFIED

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PAGE 03     PARIS 19343 01 OF 02 021038Z

IMPLYING THAT A SHARP REDUCTION IN APRIL OF ORDER INTAKE REFLECTED THE PRICE INCREASE POLICY. THIS WAS DOUBTED BY EUROPEAN DELEGATES WHO NOTED A SHARP DROP IN GLOBAL DEMAND THAT MONTH. JAPANESE INSISTED THAT THE MARKET (MORE)

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PAGE 01     PARIS 19343 02 OF 02 021030Z  
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FM AMEMBASSY PARIS

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UNCLAS SECTION 2 OF 2 PARIS 19343

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SITUATION IS SERIOUS IN JAPAN WITH SOME POSSIBLE SHIP-YARD CLOSURES IN THE NEAR FUTURE. UK DELEGATION REMINDED THE JAPANESE THAT EUROPEAN MARKET SHARE WAS STILL INEQUITABLE AND THAT EUROPEANS WILL CONTINUE TO PRESS FOR A LARGER SHARE OF THE AVAILABLE MARKET.

4. THE MATTER OF AGREEABLE MEASUREMENT STANDARDS ( COMPENSATED GROSS REGISTERED TONNAGE COEFFICIENTS) IS STILL BEING WORKED ON AT THE INDUSTRY LEVEL. HOWEVER, USING EXISTING COEFFICIENTS, THE SUB-GROUP ON SUPPLY AND DEMAND WILL PREPARE A REPORT FOR THE AUTUMN MEETING OF THE WORKING PARTY SHOWING AT LEAST A SIX MONTHS' 1977 RESUME OF NEW ORDERS AND ORDERBOOK FIGURES.

5. THE PROBLEM OF COMPETITION FROM NON-WP6 MEMBER COUNTRIES IN SHIPBUILDING, PARTICULARLY SOUTH KOREA, POLAND, TAIWAN AND BRAZIL WAS TOUCHED UPON DURING DISCUSSION OF LONG-TERM INDUSTRY RESTRUCTURING. THERE WAS INCONCLUSIVE DEBATE OVER BOTH THE MARKET OFFERED AND THE COMPETITION POSED BY THIRD COUNTRIES, BUT GENERAL RECOGNITION THAT RESPECTIVE GOVERNMENTS SHOULD NOT UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PARIS 19343 02 OF 02 021030Z

ENCOURAGE AID FOR DEVELOPMENT OF SHIPBUILDING INDUSTRIES IN DEVELOPING COUNTRIES. IN THIS CONNECTION, THE JAPANESE PROPOUNDED THEIR POSITION THAT THE BEST WAY TO DEAL WITH THIRD COUNTRY COMPETITION WAS TO RESTRUCTURE ONE'S OWN INDUSTRY TO BECOME MORE EFFICIENT AND TO RETAIN TECHNOLOGICAL ADVANTAGE. THE JAPANESE, IN RESPONSE TO RHETORICAL QUESTIONING FROM THE UK DELEGATE, WOULD NOT ACCEPT THAT CERTAIN SECTORS OF THE WORLD SHIPBUILDING MARKETS WERE CLOSED TO WP MEMBERS, CITING UK ATTEMPTS TO WIN ORDERS FROM POLAND IN CONTRADICTION TO THE UK THESES.

6. CANADIAN DELEGATION FINALLY RESPONDED TO ISSUE RAISED SOME MONTHS AGO BY DENAMARK RE AN ALLEGED BREACH OF THE UNDERSTANDING ON EXPORT CREDITS FOR SHIPS UNDER THE TERMS OF A CANADIAN SHIPYARD'S RECENT

CONTRACT TO BUILD FOUR CARGO VESSELS FOR POLISH OCEAN LINES. THE CANADIAN DEL CLAIMED PROPER NOTIFICATION PROCEDURES WERE FOLLOWED IN ANNOUNCING A BREACH OF THE UNDERSTANDING WHICH IT HAD TO DO TO MEET TERMS BEING OFFERED BY YUGOSLAV COMPETITION. WHILE DENMARK WAS APPARENTLY DISSATISFIED WITH CANADIAN DELEGATION'S EXPLANATION, IT IS MOOT QUESTION WHETHER OR NOT THIS ISSUE WILL BE THE SUBJECT OF CONTINUING DISCUSSION.

7. UK DELEGATION ASKED THAT EXPORT SALES TO DEVELOPING COUNTRIES UNDER CLAUSE SIX OF THE UNDERSTANDING BE TABLED FOR DISCUSSION AT THE NEXT WP MEETING WITH A VIEW TO STOPPING WP6 MEMBERS COMPETING AGAINST ONE ANOTHER IN OFFERING SOFT CREDIT TERMS. THE US QUERIED JAPAN REGARDING THE RUMOR OF THE SALE OF A COMBINATION PASSENGER-CARGO SHIP TO BE BUILT FOR TANZANIA. JAPANESE DELEGATION HAD NO INFORMATION ON HAND TO CONFIRM OR DENY SUCH UNCLASSIFIED

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PAGE 03 PARIS 19343 02 OF 02 021030Z

A TRANSACTION.

8. THE NEXT MEETING OF THE WP IS SCHEDULED FOR SEPTEMBER 28-29 AND THE FOLLOWING MEETING, UNDER A PRECEDENT ESTABLISHED IN 1972, IS PROVISIONALLY SCHEDULED TO BE HELD IN TOKYO THE SECOND WEEK IN NOVEMBER.

9. THE ISSUE OF FULL US PARTICIPATION IN THE WORKING PARTY WAS NOT RAISED AND THEREFORE NOT ADDRESSED BY US OBSERVER. NO QUESTIONS WERE POSED CONCERNING US POLICY ON OIL IMPORT CARGO PREFERENCE OR TANKER SAFETY.

10. COMMENT - THE MEETING OF THE WORKING PARTY WAS A "BREATHING" FROM THE USUALLY INTENSE EUROPEAN-JAPANESE CONFRONTATION IN THAT STRONG POSITIONS WERE NOT TAKEN REGARDING MARKET SHARES. THIS LACK OF ARSON ON THE PART OF EUROPEANS MAY BE PARTIALLY DUE TO FACT THAT IT IS TOO EARLY TO READ A DEFINITE TREND IN THE JAPANESE MARKET SHARE. FURTHERMORE, EUROPEANS HAVE INDIVIDUALLY REVERTED TO DIFFERENT DEGREES OF PROTECTIONISM TO COPE WITH THE CRISIS WHICH JAPANESE APPEAR TO ACCEPT ON CONDITION THAT LONG-TERM RESTRUCTURING OF PRODUCTION CAPACITY TAKES PLACE SIMULTANEOUSLY. SALZMAN

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